Larsen & Toubro Limited

Q2 / H1 FY27 Earnings Conference Call"

October 27, 2026

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Moderator: Ladies and gentlemen, good day, and welcome to the Larsen & Toubro Limited Q2 and H1 FY27 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. P. Ramakrishnan from Larsen & Toubro. Thank you, and over to you, Mr. P. Ramakrishnan.

P. Ramakrishnan: Yes. So thank you, Sagar. Good evening, ladies and gentlemen. A warm welcome to all of you to the Q2 FY27 earnings call of Larsen & Toubro. The earnings presentation was uploaded onto the stock exchange almost an hour back. I hope you had a chance to have a quick look at the numbers. As per past practice, I will first walk you through the important highlights for Q2 FY27 in the next 20 to 25 minutes, post which we will be taking the Q&A. Kindly note that when the Q&A session starts, I will also have with me our Deputy Managing Director and President, Mr. Subramanian Sarma.

Before I begin the overview, the disclaimer from our end. The presentation which we have uploaded on the stock exchange and the website a while back, including the discussions we may have on the call today may contain certain forward-looking statements concerning L&T's business prospects and profitability, which are subject to several risks and uncertainties, and actual results could materially differ from those in such forward-looking statements. I would request you to go through the detailed disclaimer, which is available in Slide 2 of our earnings presentation that we have uploaded.

India's economy has remained resilient despite a difficult global backdrop, supported by domestic demand and investment activity. Policy measures remain focused on maintaining macroeconomic stability. However, the outlook continues to be influenced by the trajectory of external developments, which are likely to remain important factors shaping growth outcomes. The recent reescalation of the conflict in West Asia and the resulting volatility in oil prices have contributed to increased uncertainty in the global economic environment. More broadly, volatility in energy markets, logistics and trade disruptions, rising input and financing costs and the continued uncertainty surrounding a resolution to the West Asia conflict remain relevant considerations for the operating environment.

Having covered the macroeconomic landscape, let me now turn on a few developments and achievements for L&T.

First is on Hydrocarbon. The L&T Hydrocarbon business has been selected as 1 of the 4 contractors under a 6-year EPC framework agreement with the Petroleum Development of

Oman. The agreement positions the company to participate in major EPC opportunities under PDO's capital investment program. The framework further strengthens our presence in Oman's Hydrocarbon sector and provides a platform to pursue future project opportunities.

The next one is on Data Centers. The Data Center business of the company is being reorganized under Vyoma.AI Limited, a wholly owned subsidiary. While this subsidiary will house the colocation business, the AI compute operations are being developed through its wholly owned subsidiary, LTN Compute Private Limited. The LTN Compute is establishing an AI factory at its Chennai campus with a planned capacity of over 10,000 NVIDIA B300 GPUs. It has entered into a long-term deployment agreement with Together AI for a significant portion of the GPU capacity. The commissioning is targeted in January '27.

I move on to Semiconductor business. This business is housed in a wholly owned subsidiary called L&T Semiconductor Technologies. This subsidiary continues to strengthen its semiconductor platform through product innovation and strategic partnerships. The company unveiled 40 semiconductor products and platforms across power, compute, connectivity and analog technologies, including its first 1,200-volt silicon carbide MOSFET platform. The silicon carbide expands the company's presence in the high-efficiency power semiconductors serving applications such as electric mobility, renewable energy, industrial systems and data centers. During the period, the company partnered with Azuremoto Technologies to advance SiC and power semiconductor solutions and with Tata Electronics to support indigenous manufacturing of semiconductor products for domestic and global markets.

I move on to the Electronics business. The Electronics Products & Systems business continued to expand its capabilities across power electronics, industrial automation and mobility. During the period, the business secured an initial BESS order and commenced capacity expansion at the Kanchipuram facility to support the assembly and integration of Battery Energy Storage System (BESS) solutions. The business also progressed product development and commercialization initiatives in industrial automation. In mobility, it achieved production readiness for EV traction motors with commercial production scheduled to commence in Q3 FY27, while continuing to advance opportunities in ADAS and e-powertrain systems with leading automotive OEMs.

I move on to Development Projects segment. As previously communicated, the company signed a share agreement in Q1 of the current financial year with Hyderabad Metro Rail Limited, a wholly owned enterprise of the government of Telangana for the divestment of its entire stake in L&T Metro Rail (Hyderabad) Limited. The expected completion date for this transaction has been revised from September 30 to December 31, 2026.

I now move on to the group performance for the quarter ended 30th September 2026. We recorded our highest ever quarterly order inflow at Rs 1.48 trillion, registering a growth of 28% Y-o-Y, led by receipt of ultra mega and mega orders across offshore, onshore hydrocarbons and CarbonLite businesses within the Energy Conventional segment. Within the Projects, Product & Manufacturing, that is PPM portfolio, the order inflows reached a record high of Rs 1.26

trillion, registering a robust 32% Y-o-Y growth. The growth was broad-based across both domestic and international markets with order inflows rising 49% and 24%, respectively.

International orders accounted for 62% of the portfolio mix compared with 66% in the corresponding quarter of the previous year.

Turning on to the prospects pipeline. The prospects pipeline for the PPM core business for the balance 6 months of the current financial year remains healthy at approximately Rs 10.3 trillion, which is almost at the same level like last year. The broad composition of this overall prospects pipeline is as follows: Infrastructure & Utilities has a share of Rs 5.84 trillion as compared to Rs 5.81 trillion last year. Energy Conventional, the order prospects is for Rs 2.07 trillion vis-a-vis Rs 3.35 trillion last year. Energy Green, the order prospects is Rs 2.04 trillion as compared to Rs 0.93 trillion last year. Manufacturing and Products, the order prospects is Rs 0.33 trillion vis-a-vis Rs 0.29 trillion last year.

Moving on to the order book. The total order book, including the Realty segment stood at Rs 8.54 trillion as on September 26 and was up 28% vis-a-vis September '25. In terms of portfolio composition, 42% of our total order book is from Infrastructure & Utilities, 34% from Energy Conventional, 17% from Energy Green, 5% is from Manufacturing & Products and 2% from Realty. In terms of the geographic mix, 46% of this order book is domestic, while 54% is international, reflecting the increasing share of international orders secured over the past year. The average execution of this order book is 33 months.

The total domestic PP&M order book stood at Rs 3.72 trillion. The share of Private Sector orders increased to 39% from 30% as of September '25, driven by order wins across the CarbonLite Solutions, residential and commercial buildings, factories and the Metals & Minerals business, along with select awards in Heavy Civil Infrastructure, Transmission Lines and Airports.

Within the Public Sector portfolio, the combined share of Central and State Government orders declined to 30% of the domestic order book, comprising 11% from Central Government and 19% from State Government as compared with 38% a year ago. The PSU exposure remains largely stable at 31%. Of the international order book of Rs 4.62 trillion, the Middle East accounts for 73% of the portfolio, underpinned by our long-standing presence in the region. Europe contributes to 13%, reflecting the growth in our offshore wind business over the past few quarters. The balance 14% is distributed across other international markets, including Central Asia, ASEAN and the SAARC regions, providing further geographic diversification. With respect to the additional details on the order book, 7% of the total order book is funded via bilateral and multilateral agencies. In addition, as of September 2026, slow-moving orders constituted around 1% of the overall order book. During the quarter, orders were deleted for less than Rs 10 crores.

Turning to Revenues - Supported by strong execution progress across Energy-related projects that comprises both Conventional and Solar and healthy growth in the Financial Services segment, the group revenues rose to Rs 787 billion, registering a robust 16% growth.

International revenue contributed to 58% of the total revenues during the quarter. The revenues from the PP&M portfolio stood at Rs 584 billion, reporting a robust growth of 20% Y-on-Y.

The performance were driven by strong execution across the Energy portfolio, supported by the progression of recently secured Ultra Mega projects and the continued conversion of the expanded order book into revenues despite continuing logistics and supply chain challenges during the quarter.

Moving on to EBITDA margin. Our group level EBITDA margin, excluding other income for Q2 FY27 is 8.7% as compared to 10% in Q2 of the previous year. The EBITDA margin was primarily impacted due to lower margin across the group's portfolio and change in the revenue mix. When I mean revenue mix, I'm referring to a higher share of the PP&M portfolio in the overall revenue stack up.

Our PPM business EBITDA margin for Q2 FY27 was at 7% and declined by 30 basis points compared to the corresponding quarter of the previous year. The decline in PPM margin is primarily due to cost pressures in the WET projects that is Water & Effluent Treatment, increased supply chain costs and a higher proportion of projects yet to reach the margin recognition threshold.

Our group PAT for Q2 FY27 stood at Rs 52 billion, registering a strong growth of 33% Y-o-Y. The growth was primarily driven by a significant pickup in activity levels across the Projects -- Products & Manufacturing portfolio, coupled with higher treasury income, supported by the release of funds through improved working capital management within the PPM portfolio. The detailed insights on the group's performance, the P&L composition and key drivers of variances across the business segments and functional heads are provided in the earnings presentation. You may refer to the same for further details.

Moving on to working capital. Our focus on working capital efficiency and the changing underlying nature of the order book has continued to yield positive results during the quarter. The NWC percentage improved to a record low of 1.7% as on September 26 as compared to 4.1% as of March 26.

The improvement of NWC percentage was supported by a reduction in the Gross Working Capital percentage from 51.7% as on March 26 to 48% as on September 26, along with customer advances received against the recently secured large orders. Our group level collections, excluding financial services for Q2 FY27 stood at INR740 billion as compared to INR600 billion in Q2 of the previous year. The cash flow from operations, excluding financial services increased to INR128 billion during the quarter as compared to INR48 billion in the quarter of the previous year. Our group cash flows, excluding the Financial Services business has been provided in the annexures alongside reported cash flows to enhance the clarity on the cash flow movements.

Finally, the trailing 12-month ROE for Q2 FY27 stood at 16.7% vis-a-vis 17.2% in Q2 of the previous year. As this metric has been calculated on a trailing 12-month basis, it continues to

reflect the impact of the onetime labor court provision, which was recognized in the Q3 of the previous year.

Very briefly, I will now comment on the performance of each business segment before we give our final comments on the outlook. We start with the Infrastructure and Utilities segment. Following a robust Q1, order inflows for this segment stood at Rs 355 billion during the quarter, declining by 13% Y-o-Y. The major orders were secured in the airports and power transmission distribution business in India and UAE, along with the orders in ferrous metal plants, data centers and Central and State Government-funded public buildings. Private sector orders contributed to contribute meaningfully at 59% of the domestic order inflows, same as previous year, reflecting the continued strength in private funded capex. The segment order book stood at Rs 3.61 trillion as of September 26, providing strong revenue visibility with an average execution cycle approximating to 29 months. As I mentioned earlier, the Infrastructure and Utilities prospects pipeline for the remaining 6 months is approximately Rs 5.84 trillion.

The pipeline comprises of domestic prospects of Rs 4.59 trillion and international prospects of Rs 1.25 trillion. The subsegment breakup of the total order prospects is as the Transportation Infra, 24%; Heavy Civil Infra, 19%; Buildings & Factories, around 18%; Power Transmission & Distribution, 17%; Metals and Minerals at 14% and Water & Effluent Treatment at 9%.

Revenues for the quarter grew by 6% year-on-year, driven by a pickup in execution momentum across domestic private sector projects, supported by strong activities in the Residential, Commercial Factories, Transportation Infra and the Metals and Minerals business. The international business witnessed steady execution in select core civil infrastructure projects as the business continued its selective expansion in this space, while the Middle East-focused Power Transmission & Distribution business saw a marginal moderation in the activity level.

The EBITDA margin for the Infrastructure and Utilities segment was at 5.7% in Q2 of the current year as compared with 6.2% in Q2 of the previous year. The margin for this segment has been impacted by continuing cost pressures in the Water & Effluent Treatment portfolio and a higher proportion of jobs yet to cross the margin recognition threshold.

Moving on to the Energy Conventional segment, which comprises the Hydrocarbon, CarbonLite Solutions and the Modification, Revamp and Upgrade (MRU) of the process plants business. The segment witnessed robust order inflows of Rs 784 billion during the quarter, more than doubling Y-o-Y basis. The Hydrocarbon business witnessed strong traction in the Middle East as well as India, particularly in the Offshore business, while the CarbonLite Solutions business secured a mega order from NTPC for the main plant package of the 2 X800 MW Lara Stage-III thermal power project. The order book of the Energy Conventional segment stood at Rs 2.87 trillion as on September 26, with the Hydrocarbon order book at Rs 2.13 trillion and CarbonLite Solutions at Rs 0.71 trillion. The Energy Conventional segment continues to see a healthy opportunity pipeline led predominantly by the Hydrocarbon opportunities across international markets, while CarbonLite Solutions prospects remain largely domestic in nature. The order prospects pipeline for the remaining 6 months of FY27 stands at approximately Rs 2.07 trillion,

comprising Hydrocarbon prospects of Rs 1.67 trillion and CarbonLite Solutions prospects of Rs 0.40 trillion.

The Q2 FY27 revenues for the segment stood at Rs 173 billion, registering a strong growth of 29% Y-o-Y basis. The growth was driven by sustained execution momentum in off-site activities in the Hydrocarbon business and increasing execution intensity in the CarbonLite portfolio with BTG orders secured in recent quarters now translating into higher revenue recognition.

The Hydrocarbon margins improved from 6.7% to 7.5% during the quarter. The CarbonLite Solutions and MRU margin, however, declined from the elevated levels seen in the corresponding quarter of the previous year, which had the benefit of favorable customer price variation claims. Segment margins were further impacted by certain large CarbonLite Solutions projects remaining below margin recognition thresholds. Consequently, the overall segment margins stood at 7.4%, down 80 basis points Y-on-Y basis.

Moving on to the next segment, which is Energy Green. The segment comprises a relatively mature solar business with a strong presence across GCC markets, complemented by growth platforms in the onshore wind and the developed market-focused offshore wind business.

The order inflows in this segment stood at Rs 66 billion during the quarter, declining 45% Y-o-Y, primarily due to deferral of certain solar projects in the Middle East. The order book in this segment was Rs 1,436 billion, comprising of solar projects of Rs 703 billion, onshore wind projects of Rs 168 billion and offshore wind projects of Rs 565 billion.

The prospects pipeline for this segment is Rs 2.04 trillion, comprising of solar EPC prospects of Rs 1.47 trillion, onshore wind prospects of Rs 0.19 trillion and offshore wind prospects, which is primarily in Europe of Rs 0.38 trillion. The segment revenue for Q2 FY27 stood at Rs 115 billion, registering a strong growth of 43% Y-o-Y, aided by commencement of large value projects in solar and ramp-up of offshore wind projects.

With the first set of offshore wind orders having been secured late last year, the segment is now transitioning from order booking to execution, driving higher revenue recognition as the project activity gains momentum. The margin for the segment was largely stable for the quarter.

Moving on to the Manufacturing & Products segment business. The segment order inflows during the quarter was aided by receipt of export orders in the Precision Engineering and Systems business. The order book of the segment is Rs 429 billion as of September 26, with the Precision Engineering order book at Rs 218 billion, Heavy Engineering segment order book at Rs 81 billion, Electronics Products & Systems order book, which currently includes the defense-related electronics as well at Rs 65 billion and the Construction Equipment and Industrial Product Design and Development order book at Rs 65 billion.

Our order prospects pipeline for the remaining 6 months in the segment is around Rs 325 billion, comprising of Rs 284 billion of Precision Engineering and Electronics prospects and the remaining Rs 40 billion is from the Heavy Engineering business.

The segment revenue at Rs 45 billion registered a growth of 34% Y-o-Y and is reflective of the strong execution momentum in the Precision Engineering and the Electronic Product Systems businesses. The margin improvement in the segment is primarily reflective of execution cost savings and improved job mix.

Moving on to the next segment, Technology Platforms & Services, which comprises the 2 listed entities, LTM and LTTS as well as the new businesses of digital platforms, data centers, semiconductor design and as well as a small portion of the divested Smart World & Communications portfolio. The segment revenues stood at Rs 148 billion for Q2 FY27, registering a growth of 11% Y-o-Y, led by growth in both LTM and LTTS.

The salary hike and adverse forex variation in LTM impacted segment margin, partly offset by a onetime gain on the Smart World & Communications divestment in LTTS. I will not dwell too much on this segment as both the companies in the segment are listed entities and the detailed fact sheets are available in the public domain.

Now we move on to L&T Finance Limited. Here, again, the detailed results are available in the public domain. But very briefly, the Q2 witnessed a robust growth in retail disbursements and improved collection efficiency as well as asset quality. The Return on Assets remained healthy at 2.6% for Q2 FY27.

Moving to the Realty segment, which is now being reported as a separate segment following the segregation from the erstwhile Projects & Manufacturing portfolio. The order inflows for Q2 FY27, which mainly represents L&T's share of presales stood at Rs 13 billion. The segment order book representing unrecognized revenue stood at Rs 184 billion as of September 2026. Revenue and margin are primarily reflective of the lower handovers of residential units.

Supported by the strength of our order book, healthy prospects pipeline and continued focus on execution, let me now turn to the guidance that we have provided for the current financial year.

I start with order inflows. The group order inflows recorded a robust 22% Y-on-Y growth in H1 of the current year with growth across domestic and international markets, notwithstanding bid deferments, particularly in the Middle East solar business. The prospects pipeline for the remaining six months remains healthy at Rs 10 trillion with a marginal bias towards domestic opportunities, providing confidence in sustaining order inflow momentum for the next six months of the current financial year. Given the strength of the opportunity pipeline across the key sectors, we are confident of achieving our order inflow guidance of 10% to 12% for FY27.

Coming on to Revenues. The domestic execution continues to gain traction across the Residential, Commercial, Precision Engineering and the CarbonLite Solutions business. In the

Middle East, despite ongoing logistic disruptions, the project execution continues to progress well. Working closely with our clients, our teams continue to implement alternative logistic arrangements and execution plans to mitigate the impact of these challenges. In addition, the Offshore Wind business, which is now in its full year of execution, is also expected to meaningfully contribute to the growth relative to FY26. Considering the overall operating environment, we are confident of achieving our FY27 revenue growth guidance of the 10% to 12% band.

Moving on to the margin for the PPM portfolio. In line with our revenue growth guidance, we are reasonably confident of meeting our EBITDA margin target of 7.8% for FY27.

Closing with working capital, the collections remain on track across the key markets, including international markets. As mentioned earlier, the group net working capital stood at a record low of 1.7% as of September 2026, supported by significant working capital improvements in the Energy Green and Hydrocarbon segment. Based on the current trajectory and improved volume of execution, we now expect the group net working capital to close below our earlier guidance of 10% for the year. So, with this, I have given an overall synopsis of the performance for the quarter and the way we look at the next 6 months.

We can now get into question-and-answer. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session Your first question comes from the line of Aditya Bhartia with Investec.

Aditya Bhartia: So just wanted to understand a bit more on the Solar business. We are seeing deferral in project awards, but at the same time, we are seeing very strong execution in international green projects. So, what is really happening over there? And do you anticipate these projects to get bunched up and maybe ordering to be picking up in second half of the fiscal?

P. Ramakrishnan: Yes. Mr. Sarma is there. He will answer this question.

Subramanian Sarma: So, on the Solar business, I think we have a very strong presence in the Middle East and of course, also a bit in the domestic. And there were some delays in the first two quarters in terms of awards. But now we see that we have bid for many jobs and the bidding activities have picked up quite a bit. So, we hope to pick up momentum in quarter three and four i.e. the second half.

And of course, also under that division, we have Offshore Wind business. And there, we had a very good run. We picked up additional contracts under the framework. And that project business is now doing well. So that's where we stand.

P. Ramakrishnan: So Aditya, just to add just to what Mr. Sarma just now spoke, the first half for Solar was a little subdued in so far as ordering is concerned. And as I talked about the order prospects of the various segments, the prospects continue to remain strong. So hopefully, I think the ordering momentum for this segment from outside of India will regain traction in the second half.

Aditya Bhartia: Sure. But in terms of execution, we have not seen any major slowdown. And given that there were a lot of logistic challenges with some of these solar projects also, we have not even seen any impact on margin fee.

P. Ramakrishnan: So let me put it like this. Yes, to the extent wherever we have been able to supply into the site, we have tried to do that, despite all the logistics challenges. So, so far, we have done well. Now it needs to be seen depending on the situation, how we see in the next six months or so.

Aditya Bhartia: Sure. Sir, my second question was on margins in the CarbonLite business and the way the CarbonLite business gets recorded. Now given that a part of the business is being done through MHI JVs and earlier, we used to split certain orders getting largely -- as margins in certain orders getting largely recorded in MHI JVs and only a small part getting recorded in the main consol books. How is it being carried on right now? Is it fair to assume that bulk of the margins from here on would be seeing a line-by-line consolidation as opposed to a single line MHI JV consolidation?

P. Ramakrishnan: So, the projects have been secured by the Larsen & Toubro entity only. And this, in turn, has been subcontracted some portions of it to the JV companies. So the EPC margins will continue to reside in the parent CarbonLite segment.

Aditya Bhartia: Understood. But higher margins are likely to be equipment-related margins and are likely to be recorded in the JVs?

P. Ramakrishnan: I would say it will be a combination in both. But EPC margins since BTG as an opportunity is in EPC. So, the EPC margins will be taken at the segment level. There will be some portion of margins because of efficiency and fuller scale capacity utilization, the JV companies also is expected to be profitable on this particular order.

Moderator: Your next question comes from the line of Mohit Pandey with Citi.

Mohit Pandey: Sir, first question is on the Energy Green segment. If you could give some color on whether the growth was driven more by the offshore wind ramp-up or by the Middle Eastern Solar with regards to execution? And also how the supply chain here in the Middle Eastern Solar differ from that for the Infrastructure segment where growth has been slower.

P. Ramakrishnan: So, the segment revenues for the quarter, which I talked about, is driven more by Solar. Offshore wind has just now started. So Offshore Wind will pick up execution in the following quarters.

Mohit Pandey: Understood, sir. And on the second part, how does the logistics supply chain differ any thought, color vis-a-vis Middle Eastern Infrastructure project?

Subramanian Sarma: Yes. So Sarma here. Logistics is more relevant for Renewables business in the Middle East and to some extent, for Power Transmission, less for Hydrocarbon. And at this point in time, the Infrastructure projects are in very early stage. So, they do not have that much of impact of the logistics.

On the Renewables side, yes, I think it's taking a little longer for us to get the materials and there is some extra cost. So, we are in discussion with customers. In some cases, we are delaying the material dispatch. In some cases, we are incurring the cost and agreeing to get that reimbursed from the customer. So, a combination of that is happening.

With some delays here, I think we expect some deferment of revenue on the Renewables business. But we'll try to make it up with other projects in the domestic market and other countries. If not, there could be some shortfall on that particular business.

Mohit Pandey: Yes, yes. And sir, on Hydrocarbon book, what percent of the order book would be still in the relatively early stage of execution, meaning getting executed from our India facility? Would it be 70%, 80%?

Subramanian Sarma: I think, yes, we picked up quite a few large orders in hydrocarbon between Onshore and Offshore in the last 2-3 quarters. I would say maybe I have not done the math, but maybe...

P. Ramakrishnan: But a major part of the order book...

Subramanian Sarma: 60% could be under the new ones and yes, it will start. I mean it will achieve that threshold maybe in Q4 and beyond.

Mohit Pandey: Understood, sir. And sir, last question is on Precision Engineering. So our presentation mentioned we won some export orders. Possible to give some color around these. And this year, there has been large DAC approvals. Any key projects you want to highlight that we've been in play for? Yes.

P. Ramakrishnan: This is an order from Vietnam.

Mohit Pandey: Understood, sir. And with regards to the DAC approvals that we have seen this year, any key projects that we might be in the fray for?

P. Ramakrishnan: On defense? Yes, there is a possibility. The prospect pipeline look more reassuring. And hopefully, some order inflow conversion should be happening in this segment.

Subramanian Sarma: Third quarter.

P. Ramakrishnan: Most likely by the end of this year.

Moderator: The next question comes from the line of Puneet Gulati with HSBC.

Puneet Gulati: Great performance, I must say, on all fronts. On order inflow side, if you can help us understand how are you managing the risk there? What is the certainty on order execution time line and cost? Some color would be very useful.

P. Ramakrishnan: So will you take it? Yes.

Subramanian Sarma: You go ahead, start.

P. Ramakrishnan: So okay. So let me put it like this. I think in the first 6 months, what we have seen and especially on the international side, a majority of the order inflows outside of the offshore wind has been largely led in the Hydrocarbon segment. We have seen some project deferments insofar as Solar is concerned. But as far as Hydrocarbons is concerned, especially in the Middle East, we have seen the bidding activity to be quite robust. And we have also benefited from many of these orders that we have secured, okay?

Competitive intensity continues to be there. It is quite strong but the fact is a major part of the international orders is coming from the Hydrocarbons segment primarily. Despite the fluid situation in Middle East, this segment continues to witness bidding. And as far as not only bidding, I would also like to emphasize here, and Mr. Sarma can allude to the fact that execution momentum also until now has not been disturbed. So that momentum continues to be reasonably strong.

Subramanian Sarma: And also, Solar will have a pickup in the momentum in the order inflow in the second half.

P. Ramakrishnan: Correct. Solar will pick up order inflow momentum. As I mentioned -- in responding to an earlier question, that is a second half story.

Puneet Gulati: Okay. But in terms of costs, etcetera, you're not seeing any escalation when you're bidding for the projects. How are you sort of factoring...

Subramanian Sarma: I think there is a cost escalation on the logistics and insurance, as we have been saying. But we are very hopeful that a good part of it will get compensated by the customer. We have had good discussions with them. There's a good traction. Now there could be a bit of a timing issue that when we recognize the cost and when we get compensated, that we'll have to see how it develops.

Puneet Gulati: Okay. And on the working capital, it is extremely good at 1.7%. How should one think about this? You've guided for less than 10%...

Subramanian Sarma: We feel good about it. What we should say? It's great. We should feel great about it. This is something we are breaking the record every quarter. I hope that we break the record again.

P. Ramakrishnan: So Puneet, I think far as the PPM portfolio is concerned, it's been a favorable negative 4%, as of September. But at a group level, I did talk about that we are going to be below the guidance of 10%.

Now -- the one of the important points, which I also talked about when I gave the Working Capital closing remarks on the guidance part, given that the volume of operations and the target revenue that we are talking about is quite a tall ask or steep ask for the next 6 months. So obviously, we do believe that this could have some amount of toning down or moderating the overall working capital trend. So, it's quite possible that we may be better than what we have

given, but we are going to below 10%. We started the year with 10%. Now we'll be below 10% for the full year.

Puneet Gulati: Understood. And just lastly, on your commitment of capex on the AI side, you talked about buying 10,000 NVIDIA chips, etcetera. Is there a plan of how much you want to commit on Data Center, AI for next 1 year, 2 years and also on the semiconductor side?

P. Ramakrishnan: So, as it stands now, as far as the 10,000 GPUs are concerned, this is close to maybe around USD 750 million of investment. And this is getting invested in our current data center of 30 megawatts near Chennai. We plan to put up another 50 megawatt of AI data center adjoining the 30 megawatt in Sriperumbudur that is Chennai. And looks like over the next 2 years, we may be putting up data center capacity using AI as an AI factory, 30 plus 50 plus another 30. So 100 megawatts plus is what we are looking for in the next 1.5 to 2 years.

Puneet Gulati: Including the chip cost?

P. Ramakrishnan: Yes. Yes, correct. Correct. So as I said, these 100 megawatts, I'm referring to AI data center. Out of it, 30 megawatts is already set up. The structure is set up. We may have to only invest in the AI chip. Now the balance 70-odd megawatts, it's a combination of investing in a new data center, which is the civil part of it, along with the related investment in the then prevailing GPU series, whatever is prevalent then. But in the near term, 1.5, 2 years total will be 100 megawatts of AI capacity.

Puneet Gulati: Understood. So for 30 megawatts, you spent USD 750 mn for just the chips. For another 70, we should think of at least $1.8 billion, somewhere close to that.

P. Ramakrishnan: And dependent on the chip value, Puneet, so it's not right to mention that. But another 70 megawatts will also have the construction cost of those data centers.

Puneet Gulati: Understood. And the Semiconductor side?

P. Ramakrishnan: As far as the Semiconductor side is concerned, I think when I spoke about the various products that they have developed, Semiconductor should be getting into business now in terms of starting to sell the designs along with the chips in the very near future. Until now, the investment was happening more on creation of the intellectual property across the various domains that they are focusing on. In the next 1 or 2 quarters, this business also will see revenue traction.

Moderator: Your next question comes from the line of Sumit Kishore with Axis Capital.

Sumit Kishore: Phenomenally strong execution and working capital performance. PR, on your comment, you mentioned PPM net working capital to sales is minus 4% as of September quarter. How should we look at the domestic PPM working capital situation here, which traditionally used to be what, 15% plus, right, on Net Working Capital to sales. So, when you talked about collections, I mean, still this is 46% of your order book and a significant percentage of your revenue. So is something changing there dramatically as well? That's my first question.

P. Ramakrishnan: Sumit, when I was speaking on Infrastructure Utilities and the CarbonLite business, these were largely domestic orders. And Infrastructure Utilities, we are seeing a higher share of Private Sector orders. As far as CarbonLite is concerned, some of the recent orders have come from the Private Sector. So the earlier 15% of domestic working capital is actually moving more favorably to -- it's not below 10%, it is around 12% to 13-%odd. But definitely because of a composition of private sector investment or private sector orders and run-up into the Residential Commercial Buildings, Factories and all these kind of prospects converting to higher share of orders, the domestic working capital intensity is also going favorably.

So if I have to take minus 4% as the overall PPM portfolio, the international portfolio obviously will be almost more than minus 4% to compensate for the 10% to 12% of the working capital intensity. So, it should be around, say, minus 8% or 9%.

Sumit Kishore: So minus 8% or 9% means there are a lot of like advances or is that they are paying you before you do the work?

P. Ramakrishnan: Yes. And more important, that's why when I also spoke about that just not the net working capital is not the only measure because the gross working capital also has improved favorably from 52% to 48%, September over March. So that also is equally important because otherwise, one can always think about since we have been securing good amount of orders over the last 6 months, orders is usually backed up by an advance from the client. That obviously is there. But the fact is the billing milestones have been quite frequent and the payments also coming on time.

Sumit Kishore: Sure. When we read the news flow, Strait of Hormuz is shut, Babel-Mandeb has its problems, logistics supply chain issues. I mean procuring Solar modules, it seems is not proving that much challenging for your execution is going fine. Hydrocarbon is the entire supply chain sort of localized, you have local fabrication facility. So I mean, what is the impact? Middle East revenues have grown 13% year-on-year in this environment. So, could you give us slightly more detailed explanation as to what really the challenges are if you have already found alternate supply chain and your margins are also not impacted?

Subramanian Sarma: Yes, go ahead.

P. Ramakrishnan: Okay. So, I will take the first part, Sumit. See, the revenue upturn, and I did mention during the July call also, a major part of the execution that is happening for the international projects are actually happening in off-site locations, which means we are doing the work in the fabrication yard. The fabrication yards, be it in Kattupalli in Chennai or in Sohar in Oman. That has helped us to ensure that the revenue clip doesn't move down.

Now given the logistic constraints and given also moving consignments from other parts of the globe into Middle East is a challenge. So the revenue uptick despite, as we spoke about, the Q2 PPM revenue growth has been 20% but we are still maintaining the revenue guidance of 10% to 12% for the full year.

That is primarily because we have to also take into account the supply chain disruptions in terms of logistics that is going to impact some of the actual equipment or this fabricated moving to site in the Middle East geography.

Moderator: Sumit sir, do you have any further questions?

Sumit Kishore: So basically, then the margin impact is also not there because the customers are paying the extra logistics costs that you are incurring and Hydrocarbon margins have improved by 80 basis points year-on-year in Q2. So, is the stage of execution also advancing on the margin that we were waiting for in Hydrocarbon?

Subramanian Sarma: Yes, more or less your understanding is correct.

P. Ramakrishnan: Only thing, Sumit, last year, I'm sure you are aware that we had some challenges in one of the projects in hydrocarbon that has got tapered off, okay? So there obviously, the margins are also moving up.

Moderator: Your next question comes from the line of Rahul Gajare with Macquarie Capital.

Rahul Gajare: Now regarding the 6-year EPC framework agreement that you have with PDO can you throw some light on the quantum and the mix of opportunity? The reason I'm asking this is because for the last 5 years, the budgets of Oman have been flattish in the range of $30-32 billion. And given that there are 4 players who are selected, is it fair to expect that margin will be better than the overall Hydrocarbon business?

P. Ramakrishnan: Okay. So, this framework agreement with PDO covers for a period of 6 years, and we believe that the order prospects that we may be targeting basis what PDO will be spending is in the range of USD 6 - 7 billion over the next 4 or 5 years. And some of these projects they have secured, apart from us, there are 3 other companies - one is the Egyptian EPC company, one is Chinese and other is a Korean. We do believe that it gives us a passport to bid for those jobs. But again, the competitive intensity being there, it depends on how well we are placed. But at least it gives us the right to bid for opportunities, which I said USD 6-7 billion over the next 3 to 4 years for Hydrocarbon from Oman.

Subramanian Sarma: We will not bid if they don't get a differentiated margin.

Rahul Gajare: Okay. Sir, and the second question is on the Realty business. Can you talk about your portfolio, the land bank? And how do you intend to ramp up over the next 3 to 4 years? I think in your annual report, it mentioned 71 million square feet of potential development portfolio. Is there any change to this particular number?

P. Ramakrishnan: Okay. There is no change from the last time what we have communicated, Rahul. It is basis this, what we indicated in the -- during the May call when we talked about the plan for this business as part of our Lakshya L31 strategy. Those numbers remain unchanged. We are still targeting that kind of a portfolio. And we continue to look at good opportunities for buying real estate and

then getting into a combination of residential and commercial developments. So it is -- the plan is on. There is no change in terms of development or investment.

Rahul Gajare: Okay. So my last question is on the Defense. Now we've seen pretty good traction on your Precision Engineering, both on the revenue and order intake. I want to know where is AMCA project in terms of bidding, what has happened? And is there any particular project that you all are looking forward to, given that we've seen a very strong traction in the DAC approvals from the government in the last 2 years?

P. Ramakrishnan: So I'll take that in sequence. The AMCA project is coming up for bid by the month end, okay? And so far opportunities are concerned, we see...

Rahul Gajare: October end.

P. Ramakrishnan: This October end. End of this week, that's coming up for bidding. As far as the opportunities from MoD or Defense, India is concerned, for us, I think we will probably get a -- we'll see a larger share of the marine opportunities as compared to land.

And as the land is concerned, as you are aware, that L&T has been working on different land-based platforms. Some of these platforms, we'll see depending on the localization content that we demonstrate to the customer, many of these large orders are expected in the pipeline, but too early to comment on the time lines. So, to put it, AMCA is for month-end bid. Opportunities for defense for Larsen & Toubro seems to be quite robust than ever it was before, largely led by on the marine side and land-based armored systems.

Rahul Gajare: Yes. Sir, my last question is, you did talk about revenue uptick in the Hydrocarbon. Because of this disturbance or logistical arrangement or out of inventory in the Solar business, is the Infra-related or Power -- Renewable-related execution being slightly impacted?

Subramanian Sarma: I think we answered that question. So we have 3 main businesses in the Middle East. One is Hydrocarbon, second is Power Transmission & Distribution and third is the Renewable - Solar. In that, the least impact is on Hydrocarbon because like PR mentioned earlier, either the projects are so advanced that we have almost everything secured already locally or already available in the sites or it is getting done in yards, which are not affected by this logistics.

The second one is Power Transmission and Distribution. There is some impact, but we are managing that, and we don't expect much impact to come through on that business also in the second half. The one where we have a significant impact is the Renewable business because like you said, the new solar modules and everything has to come from China.

There, we are calibrating it in consultation with customers. And there is a possibility that some of these materials may be delayed because the cost is very high. Customer is not agreeing that we will delay. And because of that, there could be some deferment in the revenue.

Moderator: We have our next question coming from the line of Atul Tiwari with JPMorgan.

Atul Tiwari: Yes. Sir, just one question. What is the degree of dependence on Strait of Hormuz for the Hydrocarbon business, especially to transport large platforms etcetera. And obviously, that remains contested right now. And if it remains contested, then is there an alternative? Or how will you negotiate that situation?

Subramanian Sarma: So yes, see some of this work which we have done in our yards in Oman and other places, it has to cross the Strait of Hormuz. It is not that in the Strait of Hormuz, nothing is moving. I mean even oil barrels are moving through the Strait of Hormuz. 70% of the pre-war barrels are still moving through the Strait of Hormuz, though it is not publicly declared.

So, we were successful in moving one large consignment and now we are exploring possibility to move the balance. I think we are quite hopeful. It should happen. Maybe there will be some delay, but we're still optimistic that we'll be able to move through the Strait of Hormuz.

Moderator: The next question comes from the line of Amit Anwani with PL Capital.

Amit Anwani: Sir, my question pertains to the Infra margin, which are impacted by 50 bps, and you did highlight it there was an impact because of the Water Effluent business. I wanted to understand, is there more impact expected? And if we normalize that, how the infra margins are shaping up? And basis the current order book which you have, what is the kind of sense we should make for Infra margins in medium to long term because the other business is somehow stabilized or picking up, but infra still remains concerned on the margin front.

P. Ramakrishnan: Okay. So, I will take that, Amit. The Infra margins actually have been moving northward in terms of our -- as I said in response to a previous question, the share of private sector ordering is going up, especially in Minerals and Metals and the Buildings and Factories sub-segments, okay? The L1 basis would be in Transportation Infra and Heavy Civil. The Infra margins has been what they are, is primarily because of the WET, that is the Water and Effluent Treatment business that we are executing. And if -- for whatever it is, if I were to just take out the Water and Effluent Treatment from this portfolio, the margins would have been better by almost 40 to 50 basis points, okay? And this is what has impacted to be the softness in the entire Infrastructure and Utility segment. And now of course, we are ensuring that because that's a very important point is we should also get paid. And given that some of the projects are getting funding now, funding has started resuming. But time overruns and cost overruns, given that these are long-dated projects, our ability to convert into actionable claims on the customers will take time. So, until then, this segment will have some amount of execution pressure and margin pressure. And it is this, which is actually bringing down. And I did tell you the amount of margins that we are losing in this segment, the difficulty in the execution.

Amit Anwani: Right. And sir, quickly, if I can squeeze in on the Developmental Asset where you have highlighted Green Ammonia, Data Centers, and other assets. So, I was just thinking basis your strategy in the past 4-5 years where we highlighted that we want to only do EPC and the other developmental assets have kind of given troubles. What is the rationale to get into the

developmental assets in these new areas? Is there a better risk profile? What is the strategy to get into this developmental assets in green ammonia, data centers and other areas?

P. Ramakrishnan: Okay. So Amit, one clarification. The data center investment is coming under our TPS segment, okay? So it's not under Development Project segment. That's one. Secondly, when we talked about the Development Projects segments earlier, it used to be in assets like Hydel and Nabha Power, Hyderabad Metro and so on and so forth, we had IDPL and all, okay? Now where we are now looking to invest in green hydrogen, green ammonia, don't expect L&T to do sizable investments in the absence of a take-or-pay arrangement.

Subramanian Sarma: Market risk is not there.

P. Ramakrishnan: So, what happens when we had invested in Hyderabad Metro, the investment amount was quite high. The exposure was quite high, but we did not have a visibility of the revenue stream. So consequently, the return stream is also not visible. Here again, we will be investing only and you know the quantum of investment because we already communicated that in May when we covered the L31 blueprint. So, the important thing is here, the returns are assured under long-term take-or-pay. So obviously, this is not going to be dilutive of the L&T ROE that we had, say, last year because the last year, L&T ROE had the negative aspect of the development projects portfolio of the previous, that is the Hyderabad Metro and Nabha Power. Those kind of return dilutive kind of investments may not be there.

Moderator: Your next question comes from the line of Aditya Mongia with Kotak Securities.

Aditya Mongia: Somewhere there's a divergence between the goodness of growth in EBITDA at a core level, which is solid at 15% Y-o-Y and the growth that is folded in the overall EBITDA of the company.

Now I do understand nuances of Realty and so on and so forth, but there's a very large difference and it's happened for the second time. On the flip side, other income is moving in the direction that nullifies the effect. Could you give us a little bit more sense of how to think through this divergence that's happening right now?

P. Ramakrishnan: Yes. So Aditya, let me put it like this. If you see the earnings fact sheet, we also after EBITDA, we have the other income, some part of the other income is getting allocated to the segments while we declare the PPM margin because of -- those are specifically relating to the segments are getting loaded in the PPM EBITDA. What you see in the financial EBITDA is going by function of nature classification, okay?

But some part of our other income, specifically attributed to segments get loaded to those segments while we give the segment EBITDA or the PPM EBITDA or whatever we are talking about infrastructure, utilities and all. And what you see in the P&L is the EBITDA at the nature level, number one.

Number two is in far as the nature level, the EBITDA has dropped from 10% to 8.7% is also a question of some of the timing mismatches costs that we have incurred at the corporate segment level itself. So that is also related -- partly attributed to the drop in EBITDA from 10% to 8.7%.

So if I have to keep it very simple, 10% to 8.7%, you can take around 80 basis points is arising because of the segment-related margin compression, but getting compensated to other income and the balance 40 to 50 basis points coming at the timing mismatch of costs that we have booked in Corporate.

Subramanian Sarma: Just to supplement, I think you have to also see it in the context of what is happening in the external world, right? We are operating under an extremely difficult and challenging environment. You cannot take the EBITDA margin at that stage and try to extrapolate. I think it should be appreciated that despite this extremely challenging environment, we are maintaining the EBITDA margin. That is, A.

And basically, that you don't have to too much scrutinize the divergence in the growth, EBITDA margin growth versus revenue growth because any revenue growth is always positive because that gives an opportunity to look upside. So I think we have to see it in a very different light.

Aditya Mongia: Understood that part. Just the second part over here, and this is on cash flows, which have been fairly strong as in just the core is generating more than Rs 10,000 crores in the first half. Since this is higher than your expectation that you had said otherwise, how to think through this being used by L&T?

Does it mean that they start allocating this more as a working capital and start growing the core business faster? Or does one have to think through whatever quantum of capex has been classified in newer businesses start to see a big meaningful fill?

P. Ramakrishnan: Yes. So some part of the -- of course, at a group level, if you see our overall balance sheet at a group level, our cash and cash equivalents along with temporary surplus, all put together is almost touching a Rs 1 lakh crores, okay? Of course, it includes day-to-day cash balance also.

But we are sitting on, I would say, a really good amount of surplus that will be partially used for our Lakshya 31 plan of investments either into combination of data centers, into green energy, our share of equity. All these businesses will have their due levels of leverage. It's not that the entire thing will get invested at a gross level.

But only one thing I would like to add, Aditya, is I think we have taken a lot of effort to improve the working capital discipline for the core business, and we don't want to let loose that. So we will do execution in line with the progress in the customer level itself, which means timely payments by customers within the terms of the contract will also enable us to ensure execution happens. We don't want to get into that path of, trying to show revenue without at the same time compromising on cash.

Moderator: Ladies and gentlemen, we would take that as the last question for today. I now hand the conference back to Mr. P. Ramakrishnan for closing comments.

P. Ramakrishnan: So thank you, ladies and gentlemen, for a patient hearing. It was a pleasure to interact with all of you. Good luck and good night and wishing you all the very best. Thank you.

Moderator: Thank you. On behalf of Larsen & Toubro Limited, that concludes this conference. Thank you, everyone, for joining us, and you may now disconnect your lines. Thank you.